STATE ADMINISTRATION

Exhibit No. 9

Date 2/20/09

Bill No. SB484

SENATE STATE ADMINISTRATION COMMITTEE
February 20, 2009

Senate Bill 484
Sponsor: Senator Balyeat

Testimony in Opposition to SB 484
Presented by David L. Senn, Executive Director
Teachers' Retirement Board

Modifying the benefit structure of a pension plan is something that should be done very infrequently because modifications generally create a new "tier" of pension members with substantially different rights and benefits from the already existing membership. Multiple tiers mean additional work and expense in administratively managing the pension plan, and may have significant ongoing repercussions for member morale and satisfaction with the pension plan. That is not to say changes to the "normal retirement age" shouldn't be considered in the ongoing effort to maintain fiscal viability of pension plans, but it is just one feature of good plan design. As well, plan designs should not be changed without fully considering and taking into account how it will affect retirement patterns in the future, and testing to ensure the new plan will provide sufficient retirement benefits.

The Government Finance Officers Association (GFOA) in their Recommended Practice regarding retirement plan design recommends state and local governments have a policy statement that will guide their on-going plan design decisions. The GFOA recommends a state or local government consider the following policy objectives:

- Purpose of the retirement plan (e.g., level of replacement income and purchasing power retention);
- Ability of public retirees to contribute to the economic viability of their community and not become a financial liability to the community in which they live due to inadequate retirement income;
- Organization's philosophy regarding employer and employee responsibilities in preparing for retirement;
- Availability of Social Security, retiree medical benefits, disability and survivor benefits, and supplemental (e.g. 457) savings plans;
- Costs, including the employer's ability to sustain payments and perhaps increase benefits over time and cost predictability;
- Labor market considerations such as competitive environment, workforce mobility, length of employee service, and recruitment and retention of employees;
- Investment risk and control, including how investment risk is allocated between employer and employee;
- Portability of benefits;

- A plan design that can be communicated to and understood by plan participants;
- Employee educational efforts; and
- Advantages of the different types of plans (e.g., defined benefit, defined contribution, and hybrid.)

Key plan design considerations recommended by GFOA include:

- The desired amount of the benefits to be provided by the plan. This may be identified as the intended income replacement level. Consideration may include future purchasing power retention for retirees through the use of other post retirement benefit adjustments, such as cost of living adjustments (COLAS).

- Employee groups that will be eligible to participate in the retirement plan. Determine if eligible employees will be designated by the employer (plan sponsor) or if eligibility will be negotiated with organized employee groups.

- The vesting requirements for members of the plan. When and under what circumstance will members become entitled to some form of benefit? This should include a policy for the refund of employee contributions, if any, to members leaving the plan and the interest rate credited on those contributions.

- Components of the formula to achieve desired benefits (benefit percentage, years of service and final average compensation).

- Other benefit options such as early and disability retirement, joint and survivor options, and lump sum withdrawals.

- A determination as to whether the plan should include purchase of service provisions, such as prior military or other government service.

Other considerations would include:

- Board Governance

- Risk Management

- Legal counsel and consultants

- Participant Education

The problem with SB 484 is it looks at only one feature that goes into writing a good plan. However, to be effective and achieve the goal of providing Montana's public educators with a sustainable plan and adequate retirement benefits, all features need to be reviewed and a more complete plan brought back to the Legislature for consideration. Representative Don Roberts has just such a proposal in the works, LC 2126. As I understand Representative Roberts' proposal, it require a new plan be developed during the next interim and introduced in the 2011 Session. While we believe there is a need to change the current retirement plan design for the TRS, we do not believe SB 484 accomplishes all that needs to be done and could result in creating a "tier" of public educators with pension benefits differ from what we have today. This new tier could also be very different from the pension plan we will need to take us into the future. Implementing this single modification of the plan now will likely, ultimately result in three tiers of TRS pension members, with all of the attendant repercussions, including added administrative complexity and expense.

The February 11, 2009, letter from the TRS Actuary regarding the estimated cost of SB 484 warns, creating a new tier of benefits is an important decision and that the decision should not need to be revisited frequently. I also want to point out when you see the fiscal note it will show the amortization period, **AS OF JULY 1, 2008,** would decline by 7.6 years under SB 484. Again the Actuary cautions the reader these calculations are based on the July 1, 2008, actuarial assumptions, including the assumption the actuarial value of assets will **continue to earn at least 7.75%** in fiscal year 2009, and in each ensuing year. Looking at year to date market returns, even if SB 484 passes, we do not anticipate the TRS will be actuarially funded come July 1, 2009. In fact, it should not surprised anyone if the July 1, 2009, Actuarial Valuation finds the current contribution rates do not amortize the Unfunded Actuarial Accrued Liabilities over any reasonable period of time.

The bottom line is we need to have a complete picture of how any change would impact future members. Representative Roberts' proposal would give us the time to work with the Legislature to look at every component of the current benefit structure, look at alternative plan designs, including hybrid plans, and develop a plan that will provide adequate benefits for future members. A systemic review of all options available with the objective of bringing a total package to the 2011 Session is preferable over taking a piecemeal approach that would lead to legislation each Session tweaking particular aspects of the system, and possibly creating many tiers. Today the markets look pretty bleak and I appreciate that the first reaction may be to start making changes before things get any worse. We just need to take the time to do the job right and not have to revisit this issue again in 2011 or 2013.

For these reasons we respectfully request you reject SB 484.